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THE STUDENT DEBT DILEMMA: DEBT AVERSION AS A BARRIER TO COLLEGE ACCESS

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ABSTRACT

Though the rise in college student debt often has been blamed on rising tuition, a radical shift in student financial aid—from a system relying primarily on need-based grants to one dominated by loans—has been equally important. Numerous reports have highlighted the burdens faced by students who borrow large sums, but less is known about students who are averse to borrowing. For these students, the increasing prominence of loans could actually narrow their options and decrease their chances of attending and completing college. Given the increasingly important role of student loans in financial aid packages, perceptions about debt influence the ability of loan programs to achieve their goal of equalizing opportunity for students at all income levels. Based on interviews with students, counselors, outreach professionals, and financial aid directors, as well as a review of relevant research, this discussion paper offers an initial gauge of the debt dilemma and recommends four broad strategies: (1) making more grant money available for low-income and first-generation students, (2) making loan programs more attractive and efficient through income-based repayment strategies, (3) better integrating financial aid awareness into high school counseling, and (4) providing more pathways for students who prefer to attend part-time. Loans are likely to remain a mainstay of federal financial aid programs, so as interest rates begin to rise for the first time in years, foreshadowing higher future payments, the problems faced by students who borrow as well as the barriers confronted by those who are averse to borrowing are only liable to increase.

The stories can be startling: the Johns Hopkins University valedictorian who borrowed \$101,000 to get his degree, the Boston resident with an \$80,000 debt load and a \$26,000-a-year job, the student with \$25,000 in federal loans who was forced to drop out of school because she was \$5,000 behind on her college bills.¹ A succession of news

articles, research reports, and surveys highlighting the hardships confronted by students who borrow to finance their education has put us on alert about an explosion in college student debt. Though loans enable millions of students to get through college, and many pay off their debt with little problem, some feel the debt itself impedes their future plans. They report waiting to buy cars, purchase homes, or have children. Others, we are told, give up their hopes of pursuing careers in public service or attending graduate school.²

Though the debt explosion often has been blamed on rising tuition, a radical makeover in financial aid has been equally important. Since the early 1980s, student financial aid has quietly been transformed from a system relying primarily on need-based grants to one dominated by loans.³ As grant programs fail to match tuition increases, more students are borrowing, and they are borrowing more. Fifty six percent more of today's students have federal subsidized loans than students ten years ago.⁴ Graduates with loans borrow an average of \$19,300 – 60 percent more than they did in the early 1990s after adjusting for inflation.⁵

If indebted students are the visible face of the debt crisis, the invisible faces are those who may have been lost to higher education altogether, even if they could have succeeded academically. The outcry over rising student debt may have overshadowed an equally pressing problem affecting students who do not borrow. Though the cost of not going to college is high – Americans without college degrees earn on average a million dollars less in their lifetimes than those with degrees – that cost can be less apparent to a young adult than the prospect of crushing debt.

Students who fear borrowing may not seriously consider the benefits of higher education, relegating themselves to lower-paying jobs and fewer opportunities. If they do enroll, they may pursue money-saving strategies – attending part-time, working more than 20 hours a week, or attending two-year instead of four-year institutions. While some students stand by such choices, valuing their post-graduation freedom and the job experience garnered along the way,⁶ for others such strategies can decrease their chances of finishing an academic program, at a cost to themselves and society generally.

Therein lies the real dilemma of student debt: while for some students, the availability of low-interest loans widens opportunities, for others, the increasing prominence of loans could actually narrow their options and decrease their chances of attending and completing college. Given the critically important role of student loans in the financial aid equation, some students' and families' perceptions about debt could interfere with loan programs' ability to achieve their goal of equalizing opportunity for students at all income levels.

The dilemma is worth examining precisely because loans have been an effective means of leveraging federal dollars to ensure access to college for many students, and therefore are likely to remain a mainstay of federal financial aid programs. As interest rates begin to rise for the first time in years, foreshadowing higher future payments, the problems faced by students who borrow as well as the barriers confronted by those who are averse to borrowing are only liable to increase.

Though the solutions may not be immediately obvious, they clearly will rest on careful analysis of how perceptions about loans expand or narrow opportunities in a debt-

dominant environment. Because much has been written about the problem of excess debt, this inquiry focuses on the less-studied problem of debt aversion and its influence on college access and success. As an initial gauge of the contours of the debt dilemma, we spoke with students, counselors, outreach workers, and aid professionals in several states and at several types of institutions. While any policy responses to the debt dilemma need to be informed by empirical research, it is hoped that this review will call attention to the issue in order to stimulate additional research and policy explorations.⁷

WHO AVOIDS BORROWING?

We stare at the data, but so much of it is mysterious. We really need to talk to students.
- Financial aid analyst at a public university

There's definitely a pattern among low-income families, a hesitance about borrowing money. We also saw that in some African American and Hispanic families. We didn't really have data on it, but we saw it primarily from talking with students.
- Dan Mann, former financial aid director at Southern Illinois University-Carbondale

I have actually had students tell me they aren't going to school because they can't get any grant money and they refuse to take on any loans. I would hope that at least the student would go to a community college. But the majority of these people we don't ever talk to.
- Bill Nowlin, Dean of Enrollment Management, Northeastern State University, Oklahoma

It is often said by financial aid analysts that low-income students, minority students, and students who attend lower-cost institutions are loan-averse, but what that means is less clear. Is aversion to borrowing for educational expenditures a rational preference or a misguided choice by students who lack sufficient information about the benefits of a college education? Does an aversion to borrowing lead students to attend community colleges rather than four-year institutions, or to attend part-time? Does the lower sticker price at community colleges or a decision to attend part-time drive the decision not to borrow? Or are students who come from a background of less opportunity and less resources simply less optimistic about their futures – and therefore more risk-averse?

Though more analysis is necessary to get definitive answers to these questions, available research suggests that aversion to loans may reduce opportunities for a subset of low-income and minority students, the very students who most need financial assistance to attend college. For example, a 1979 analysis of perceptions about borrowing based on Federal Reserve data found that while overall most Americans were willing to borrow for educational expenses and most viewed college loans favorably, Hispanics, low-income individuals, and those with less education were less inclined to borrow. The researcher, Tom Mortenson, concluded:

Financial aid in amount and form may be an important contributing factor in the loss of minority participation in higher education during the 1980s. The differences in attitudes about student loans among different portions of the population suggest that loans may not be equally effective in meeting educational equity aims of financial aid for all aid applicants.⁸

Because many of these studies are preliminary in nature or outdated, additional research would shed valuable light on these questions.⁹

The challenges in conducting such research aren't trivial. Finances are just one of the many factors influencing students' decisions, and it is never easy to identify how individual factors influence complicated decisions such as when, whether, and where to attend college. Moreover, the students who present the greatest cause for concern are the hardest to find: those who might have succeeded in college but didn't attend because they were scared of the costs and afraid to borrow. In our interviews, we heard numerous anecdotes about such students, as well as those who ended up dropping out because they feared additional debt, but we were less successful in reaching them.

Making recommendations to address debt aversion is also a delicate matter, because it involves assumptions about how much emphasis to place on influencing student behavior, how much on redesigning loan programs, and how much on altering the loan/grant mix. Caution about borrowing could be a rational response to a student's circumstances, especially for those who face uncertainty about future job prospects. This is particularly true at the bottom of the income ladder, where students are less likely than their higher-income classmates to earn degrees.¹⁰ Low-income students also, according to a 2002 survey by Nellie Mae, earn significantly less after graduation than other borrowers, and that fact, combined with increasing debt burdens, has begun to take a toll.¹¹

"There are many reasons why it may be unwise for students to borrow the maximum allowed," writes Susan P. Choy in *Paying for College*. "Students' ability to repay their loans after they leave school depends on their being able to obtain a well-paying job, which depends in part on economic conditions when they finish their education. The uncertainties surrounding the ability to meet repayment obligations are a particular problem for students whose academic success is uncertain or whose families lack the resources to help them financially if they have difficulty repaying their loans."¹²

"Borrowers from low-income families struggle with student debt that is manageable for those from more privileged backgrounds," the 2003 Nellie Mae report concluded, noting that no such discrepancy was seen five years earlier, when debt loads were lower. "If the perceptions of the borrowers in repayment are reliable, the increase in borrowing over the past five years appears to have had its most serious impact on students from low-income families."¹³ To the extent that borrowing poses real and increasing hardships on students, the debt dilemma, if unaddressed, could have the effect of putting college farther out of reach of some of the most vulnerable students.

Do Low-Income Students Avoid Borrowing?

Surprising numbers of low income students – 850,000 a year, or 26 percent, according to the American Council on Education – don't apply for federal aid at all, even though they would likely qualify for Pell Grants.¹⁴ Indeed, in the most recent federal Student Aid Study, the Department of Education found that 12 percent of full-time dependent students with family incomes below \$20,000 a year and 16 percent of full-time independent students with incomes below \$10,000 a year received no student aid.

Among full-time dependent students, low-income students are less likely to borrow than other students, and when they do borrow, they take smaller loans. Clearly the fact that

these students are eligible for more need-based grants plays a role, as does their tendency to attend lower-cost institutions. But debt aversion may also play a role, particularly when it explains the choice of a low-cost institution in the first place.

Community College Students Less Likely to Borrow

Students who attend community colleges, typically the lowest-cost institutions, work more and borrow less than students at other institutions. Only 12 percent of community college students take out student loans, versus 40 percent or more of students at other institutions.¹⁵ Two-thirds of community college students and one-third of low-income community college students did not request financial aid.¹⁶

Community college students work more than students at four-year universities, even if they study full-time. According to a 2003 analysis of federal statistics, full-time low-income students at community colleges were borrowing an average of \$500 and earning an average of \$5,000 through work to pay their school expenses. Those at four-year institutions were borrowing more and working less.¹⁷ The vast majority of students who work but don't borrow (82 percent of them) attend community colleges.¹⁸

STUDENT LOANS: THE SHADOW SIDE OF FINANCIAL AID

They told me I didn't qualify for financial aid. I had to take out loans.

-Rosa Nunez, senior, Hunter College

I guess the schools consider loans to be financial aid. It does aid you financially. But the grant idea really helps students focus on why they're here.

- Alicia Bray, sophomore, Princeton University

In my first two years, I got financial aid, a Pell Grant. The last two years, I had to take out loans. It was my last resort. I was trying to avoid it. That's why it took me so long. I always heard so many horror stories about having to pay the loans back. It's just a hassle being in debt your first couple of years trying to get your career going. If I don't get a job soon, I will start worrying about it.

- Demetria Jackson, 28, who recently graduated from the University of DC after eight years in college

While loans are a centerpiece of federal student aid policies, to some students, loans don't constitute financial aid at all. In a series of interviews about how students pay for college, Nunez was not the only one with federal loans to say she wasn't receiving financial aid. Though there are wide gaps in our understanding about students' and parents' perceptions of loans and how those perceptions influence their behavior, it is clear that students' impressions of loan programs don't always line up with policymakers' intentions in supporting them.

"One of the problems is that people who are shaping public policy and allocating funds often view loans and grants on the same level as far as aid," said Bridget Burns, a graduate student at Oregon State University and a member of Oregon's higher

education board. “It doesn’t have the same kind of effect at all. Grants actually give people an incentive to go to school, and loans are a disincentive. That’s a problem when you’re trying to promote access. Loans alone just don’t do the job.”

Though loans constitute the majority of the federal government’s financial aid portfolio, in conversations about college access, there is a certain denial about the reliance on loans. A reluctance to borrow on the part of some families, on the one hand, and an information gap about the possible benefits of student loans, on the other, combine to cement the role of loans as the “shadow side” of financial aid. The following sections examine the nature of some families’ fears about loans and the information divide that often prevents those fears from being addressed.

Leery of Loans

We now have a kid in college. Despite what I do, when he started school last year, I started worrying.

- Financial aid officer at a state flagship institution

It would scare me to death if my daughter were taking out loans. I would hate to see her freedom impinged upon right now. It would wrench my gut.

- Mary Gill, former coordinator of financial aid for California community colleges

Borrowing scares a lot of people. Borrowing scares me. If you come out of college at 24, 25, or 26, and you owe \$45,000, and you don’t have a job yet, that’s a big hurdle.

- Marcus Wright, senior outreach coordinator, Arizona State University

The quotes above are especially telling, because of their source. Coming from aid and outreach professionals, they are indicative of a deep ambivalence in society generally, and among higher education leaders, about the current reliance on debt to finance college.

If even aid professionals suffer anxiety about borrowing for their children’s college education, it is little surprise that those who lack experience with higher education would find the whole idea bewildering, overwhelming, or downright frightening. With the nuances of changing interest rates, loan terms, and consolidation options, student loan programs *are* complex and confusing, and all the more so for students and families who have little experience with borrowing and little exposure to higher education. Often those are the very low-income students who most need financial aid to ensure they attend college.

For traditional-age students, debt aversion frequently begins with parents, not students themselves. For some, the idea of not borrowing is a deep-rooted ethic. “My father believed in the time-tested virtue that you do not borrow money for anything that’s not going to make you money,” said Eric Smith, a Kansas father recently interviewed on National Public Radio about how he will pay his daughter’s college tuition.¹⁹

“There is a notion within some families that they just don’t borrow for education. It seems so foreign to them,” said Matt Hamilton, Registrar and Associate Vice President of Enrollment and Student Financial Services at the University of Oklahoma. “Other

times, the parents may have had a difficult situation with their own credit, and they don't want to see their son or daughter start getting educational loans.”

That is exactly what happened with Mary Gill, a consultant with the California State Assembly's Higher Education Committee, when she was young. “I can trace my aversion to loans very clearly back to my parents taking out a small loan on our house when I was 12 or 13 because of some financial emergencies,” said Gill, a retired community college administrator. “My dad was out of work for a while. One of those mortgage groups foreclosed on it, and we lost our house and had to move into an apartment. It was the last little asset they had. When you come from raw poverty, loans are just like, ‘How in the hell am I ever going to pay that?’ It's a very frightening impingement on one's freedom.”

“I wouldn't do it. I ended up working for my room and board.” Gill, who went to college before the Pell Grant program was established, took 11 years to complete college, but she says she doesn't for a minute regret not borrowing.

The less familiar students are with credit and with higher education, say counselors, the less likely they are to be comfortable about educational loans. “It's something they're pretty intimidated about and fearful of, and their parents are fearful of it as well,” said Susan Bonoff, a counselor at North Hollywood High School in Los Angeles, with a large population of low-income and immigrant students. “It's just a fear of the unknown and a fear of what the future holds. The parents don't want more bills and they don't want to see their kids starting off adulthood in debt. They see it as a negative way to start adulthood. When you say schools cost thousands of dollars, that's just a mind-boggling number. There are no role models to say, ‘When I went to college, I got a good job and paid off my loan in five years.’”

While some aid and outreach professionals point to cultural factors, others say students whose parents didn't go to college are usually the last to consider loans, making first-generation status possibly the best predictor of loan aversion. “Those parents are very leery about loans,” said Jennifer Roller, a GEARUP director at Youngstown State University in Ohio. “Sometimes it filters down to a student. For some, it seems that they weren't optimistic about their future. It's more acceptable if you were going to borrow money to purchase a car. It's more tangible. It can get you back and forth to work. They've seen people before them who have cars. Nobody before them has borrowed money to go to school.”

Esperanza Nee, financial aid director at UC Santa Cruz, echoes that perception. “People who have not had any experience with credit, or little experience with credit, in general shy away from it,” she said. “For a family that only makes \$25,000 a year, to borrow \$2,000 is a lot. They're reluctant to do that, even though they will think nothing of borrowing to buy a car.”

Then there are cases where parents simply don't want to divulge their financial information – and that can prevent students from receiving both grants and loans. Ann Burcham, learning director at Tulsa School of Science and Technology, lamented that only one of her four most promising seniors had received a grant through Oklahoma's Higher Learning Access Program. Despite encouragement from school officials, the other three didn't apply. “Probably all of them would qualify for a full-ride on Pell,” said Burcham. “A lot of urban kids in this financial bracket, the parents are leery about giving

out information. They don't want to tell anybody anything about their business. Maybe they don't want their child to know how low-income they are."

Looking at reactions from parents whose children had the "most self-defeating responses to aid," researchers at Harvard concluded:

The overwhelming impression is that a lack of sophistication, and not credit constraints, are (sic) the problem. Over and over these parents complain that they are baffled by the aid process. They argue that the colleges do not explain their offers well. They complain that other families are more "in the know." Most of all, they worry about whether their children will benefit sufficiently from greater resources to justify the additional cost. Credit constraints do not receive nearly as much comment... We do not want to over-interpret the anecdotal evidence from parents' comments because they may have been embarrassed to say that family circumstances prevented them from paying college costs. Nevertheless, we think it is revealing that words like "bewildering" and "confusing" are the modal words in their comments.²⁰

If financial aid in general is perplexing, student loans are perhaps the most mystifying aspect of all. And students and their parents are not alone in finding the process mystifying: "The loan industry is becoming like the airline industry used to be, where it was very difficult to figure out the rates. A lot of things are bundled and they give incentives at the repayment end," said Esperanza Nee, financial aid director at UC Santa Cruz. "Students are not generally well-educated on financial matters and what interest rates mean."

Special Situations

For students with special circumstances – whether financial, linguistic, or parental – applying to college is even more complicated. And students from groups that are underrepresented in higher education disproportionately find themselves in those categories. Students whose parents file their taxes separately, students who don't live with their parents, students whose parents are incarcerated or hospitalized – all face serious dilemmas in completing basic tasks like filling out financial aid forms, especially if they don't have one-on-one assistance or encouragement from counselors.

Students who may qualify for independent status because they are foster children often can't get approved before their school's deadline for applying for aid because schools are responsible for designating students as independent, and some students don't know what school they will attend at the time they complete the form. Independent students generally are eligible to borrow more. Besides foster children, students can be classified as independent because they are married, have children, or are over 24.

At UC Berkeley, officials who were looking into high borrowing rates among African American students discovered that a high proportion of them – 45 percent – were classified as independent. But the ability to borrow more isn't necessarily seen as a benefit by students. "When I first got to community college, I told myself that I was graduating at the top of my class and getting my college education paid for. I filled out lots and lots of scholarships because I did not want to take any loans out. Now I have a

full scholarship and I'm still forced to take out loans," said Jeanette Johnson, 30, a fourth-year student at UC Berkeley who was valedictorian of her community college. "I wouldn't be as worried if I weren't a parent. I have to pay rent. Every six months I have to buy new clothes. They only give you a six-month time frame to start paying the loans."

Increasingly, another set of students vulnerable to missing financial aid opportunities are those whose homes don't have Internet access. One student, described in research by Kristan Venegas of the University of Reno, had to download promissory notes at the local library, contending with printers that were broken or out of paper. Overwhelmed by the deadlines, the student nearly dropped the process before eventually enrolling at UC Irvine.

"Financial aid directors and the federal government do not understand the huge chasm that is the digital divide," notes Marcus Wright, a senior outreach coordinator at Arizona State University. "I work with families every day that have no computers at home. It's not easy for them to do the federal financial aid form on the 'net. Sometimes they might have a computer but no printer. On the web, you need to print it out and have a copy so you have documentation."

Language presents an additional barrier, particularly in regions with high proportions of new immigrants. "We provide a lot of stuff, but often we don't have it translated," said William Tracy, a counselor at South Mountain High School in Phoenix. "We have a lot of Spanish-only speaking parents. If they come in for parent conferences, we have to have interpreters come in, and they don't come in often unless we call them."

First-Generation Students Borrow Less

Students whose parents had less education appear more likely to work full-time and avoid borrowing than students whose parents have college or graduate degrees. Among full-time students, those whose parents didn't finish high school were more than twice as likely as those whose parents had graduate degrees to work full-time instead of borrowing. Whereas 13 percent of the former worked full-time and took no loans, only 6 percent of the latter fit this pattern.²¹

Mexican American Students

At UC Berkeley, officials had the impression that Mexican American students, many of whom are low-income and first-generation, were borrowing less than other students, but recently, when they looked into it, they were surprised to discover how wide the gap was. Among students who completed their fourth year of college in 2004, average cumulative debt for students with loans was \$16,700. For Mexican American students, the average was below \$13,000, far less than other Latinos and African American students, both of whom averaged more than \$17,000 in loans after four years.

Berkeley officials are still examining the reasons for the discrepancy.

But officials who work with high proportions of Mexican American students say that the students' financial and immigration status may make them reluctant to rely on loans for

college. Many are low-income and first-generation college-going. Their parents may not speak English and may have little experience with credit. In many cases, the children end up being the caretakers for the families, because they speak English. Particularly if the parents are undocumented, the children may be the only ones in the family with drivers' licenses and jobs.

"Our Hispanic students do not like to borrow money," said Becky Wilson, Interim Director of Financial Aid at Texas Tech University. "They don't like indebtedness. They would rather either take fewer hours, which requires longer for them to get through school, or get a grant. Whatever it takes not to borrow is what the Hispanic population prefers to do."

Officials at UC Santa Cruz who reach out to the Salinas Valley and other areas with high Mexican American populations also hear the concerns. "They say, 'My parents won't take loans'," said financial aid director Esperanza Nee. "A lot of them live on a cash-only basis. They don't have checking accounts. They don't have credit cards."

Undocumented immigrant students, of whom an estimated 80,000 finish high school each year, face the additional dilemma of not being eligible for financial aid – and, in some states, being required to pay non-resident tuition at public institutions. It is likely that tens of thousands of additional students who themselves are U.S. citizens have parents who are undocumented and fear exposure. Though these students may apply for financial aid, often they don't know how to go about filling out the forms and their families have little understanding of the financial system.

Cultural perceptions may also influence attitudes about borrowing. In Mortenson's 1979 analysis, Hispanics were the least inclined to borrow of any of the ethnic groups studied. One student thinks that's because colleges in Mexico are heavily subsidized.

"I kind of grew up with the mentality that school should be subsidized," said Cendejas, of Los Angeles, one of a small cadre of students lucky enough to attend a college that has replaced loans with grants. "Borrowing wasn't an option." But only a small number of disadvantaged students have the grades to be admitted to a school like Princeton. For them, the only way to avoid debt may be to attend school part-time and/or work more than 20 hours a week.

THE INFORMATION DIVIDE

Research suggests that greater awareness of financial options corresponds with college access and success. In one study, awareness of financial aid and knowledge of college costs increased the likelihood of students' enrolling in college, choosing a four-year rather than a two-year school, and attending full-time rather than part-time.²²

Even academically qualified Hispanic and African American students may not enroll, it was found in one study, in part because they compare their short-term earning potential from employment directly after high school to the cost of college, without an understanding of the longer-term economic benefits that can result from attending and completing college.²³ In survey results reported by the Sallie Mae Fund, 3/4 of young Latino adults not in college reported they would have been more likely to enroll if they had had better information about financial aid. More than 2/3 of Latino parents said they

received no financial information when their child was in high school. Those whose parents speak no English were the least likely to understand financial aid.²⁴

To the extent that an incomplete understanding of student loans may prevent some students from attending college or from successfully completing an academic program, it would seem that more information would be the best antidote to the existing fear and confusion about borrowing on the part of students and their families. Indeed, college aid professionals believe that better understanding of student loans would help both those students who struggle to finish college because they don't borrow, as well as those who struggle after graduation because of the large loans they took.

"The whole thing about student loans – whether it's the people who say, 'I can't afford to do it,' which may not be the best decision since a college degree would increase their earning power; or those who get into too much debt – it seems like too many students don't make long-term decisions. I don't think many students coming in or many parents understand the whole process of paying for college," said Bill Nowlin of Northeastern State.

The information gap appears to persist despite the millions of copies of brochures and booklets explaining financial aid that are distributed by state and federal agencies, schools, financial institutions, and various non-profit organizations. Hundreds or thousands of websites also provide easily accessible information on the subject. Schools host financial aid nights and communities sponsor Cash for College events. Nevertheless, there is a prevailing sense that some students finish high school with little to no awareness of financial aid, and many students go without the one-on-one guidance that might help them navigate their particular situations.

Ideally students would have a sense of their options before they decide where to go to college, but interviews suggest that rarely happens. The only time a student is guaranteed to receive counseling about loans is in a mandatory interview *after* electing to borrow.

While loans dominate the federal government's financial aid portfolio, when professionals talk to students, they sometimes appear to be in denial about the current prevalence of loans. Often students are counseled to take loans only as a last resort, advice that rightly encourages many to apply for grants and scholarships. But since few students can avoid loans, the message can be confusing. Those who can't cover their costs with scholarships don't always receive information from trusted sources that would help them weigh the benefits of college against the risks of borrowing.

In competing for the most desirable students, admissions officials may have more incentive to make paying for college seem easy than to emphasize the burden involved. Some may entice students with well-named scholarships that offer limited funds. And when high school counselors and outreach professionals talk to students about college, they may not see informing students about financial aid as part of their responsibility. They may, therefore, emphasize preparing for college academically without preparing students or their parents for the demands of paying for college.

Since financial decisions are ultimately very personal, and involve family traditions, many counselors and aid professionals feel a need to defer to student preferences in the matter and avoid pushing them in any direction. It is understandably much easier to

counsel a student to accept a scholarship than to accept a loan. But where students don't have adequate information or are wary of seeking it out, they may focus on the negatives of borrowing without fully understanding the benefits.

If there is a financial aid information divide, it may reside somewhere between high school and college. There is no clear or established division of labor between high school officials, admissions and outreach offices, and financial aid offices that ensures students receive the information they need when they need it. In interviews, it seemed that opportunities to inform students about borrowing were sometimes missed at several key points in a student's education: during the student's high school education, during the college application process, and during college itself. The following sections focus on these phases.

During High School

They just told me to fill out the form. I didn't know much about it

- Vishal Shirke, senior at Hunter College.

Often parents who can't afford to contribute financially toward their children's education also are least able to help their children obtain financial aid. And with financial aid only one of many issues for them to contend with, high school counselors often can't pick up the slack.

Most of the students we interviewed said they received little information during high school about financial aid and paying for college. There is apparently little empirical evidence to suggest how much counselors themselves know about student aid.²⁵ And to the extent that counselors do help high school students and their parents learn about financial aid options, the students most in need of such counseling – poor students and minorities – often have the least access to counselors.²⁶ Little research has been done on the role of student aid in college outreach programs.²⁷

College officials believe high schools generally aren't doing enough. "There needs to be more at the high school – anything that helps students understand the realities of borrowing. That's not just student loans, it's about credit cards, it's about car loans, it's about mortgages. The reality is that most people borrow money at some point in their life. That ought to be a core part of high school curriculum," said Dan Mann, who recently became director of financial aid at the University of Illinois' flagship Urbana-Champaign campus.

Counselors

Despite the lack of empirical evidence, there is some reason to think that many high school counselors themselves do not feel comfortable with the intricacies of financial aid policies, and especially loans. "It's not something that comes through our office or that parents discuss with me," said a high school counselor in Oklahoma. She said her approach is to explain the different types of loans. She doesn't spend much time addressing decisions about whether to borrow or what it means to borrow, and she doesn't know how loans weigh in when her students consider their options for attending college.

In interviews conducted for this report, this reaction was not uncommon. Some counselors seem to focus on students' educational aspirations and academic preparation, but don't give the same amount of attention to the financial side. Whether this is because of their own discomfort with explaining interest rates and borrowing or because they don't see financial aid issues as a critical part of their job isn't completely clear.

What is clear is that, whatever their best intentions, many high school counselors, trying to serve hundreds of seniors at understaffed schools, simply don't feel they have time to address the issue. Indeed, several counselors who were contacted for interviews cited time pressure or lines of waiting students in declining to be interviewed. Often, then, high school counselors' attention to financial aid seems to be limited to helping students fill out the Free Application for Federal Student Aid, and even when they do, many questions appear to go unanswered.

In a research project conducted at nine Los Angeles high schools, Kristan Venegas found that at three of the schools, counselors were only able to answer the most basic questions about financial aid, and often they weren't available even for that. One of the schools closed its counseling center at lunch time so that the counselor could do lunch duty. Just getting students to fill out the FAFSA form seems to be a challenge, and many students know little else. Indeed, several students interviewed for this report, when asked the source of their financial aid, said the money came "from FAFSA."

To college officials, part of the problem on the high school level is that many counselors lack sufficient training. College financial aid officers report that they are frequently called upon by area high schools to do presentations for students and parents or conduct trainings for counselors. "I could spend 80 hours a week," said Esperanza Nee, financial aid director at the University of California at Santa Cruz, estimating the need for such sessions.

"There's very little training," said Esther Hugo, coordinator of outreach programs at Santa Monica College. "It's the most important component, and there's the least training, and it's the most obtuse system. It's the perfect storm of disasters."

Some colleges offer training for high school counselors and for college outreach workers, but the response isn't always good. Florence Attino, Financial Aid Planning Advisor at Pace University, says she wishes she could reach the long list of high schools that never respond to her overtures offering training. Esperanza Nee has the same feeling about outreach programs at UC. "I have offered to train our outreach people, but they don't want to do it," said Nee. "They think it's too complicated. They're intimidated. It's not easy. It's not straightforward."

Student Loans and the FAFSA

When it comes to loans, the confusion often begins when a student first fills out the Free Application for Federal Student Aid. While helping area high school students fill out FAFSA forms as part of her dissertation research at USC, Kristan Venegas found that one of the questions that most confounded students was about loans:

In addition to grants, would you, the student, like to be considered for student loans (which you must pay back)?

At three Los Angeles area high schools with predominantly Hispanic populations, 40 to 50 of the roughly 70 students she met with, including many enrolled in college-prep curriculums, asked her to explain the question. They wanted to know things like: “Is this for me or my parents?”; “If I click on it am I automatically signing up for the loan?”; or, “Does this mean I won’t get free aid?” Once Venegas explained that the loans were not obligatory, most of the students were willing to check the box.

Out of 70-some questions on the form, the loan question was among the three that that required the most explanation (the other two were about calculating adjusted gross income and income tax paid). Interestingly, the U.S. Department of Education’s online worksheet, which includes explanations for many of the questions to guide students in filling out the FAFSA, treats the loan question as self-explanatory.

Venegas was also flooded with questions from U.S. citizens whose parents are undocumented. They didn’t know how to answer the question about their parents’ social security number. After explaining what to do (use all zeros) to one such student at a Los Angeles area high school, Venegas said, a group of others with the same dilemma flocked to her.

Venegas tries to work with students in two sessions – the first one to explain the form, and the second to actually complete the application after the student has had a chance to gather relevant materials. But it is unusual for counselors to be able to devote that much time to each student.

Communication Gap

Despite students’ reports that they receive little information in high school, there was a common impression among officials that it is the students and parents who aren’t paying attention. “We go to high schools,” said Nowlin of Northeastern Oklahoma State. “It’s amazing the low turnout at most of these events. Here’s an opportunity to get some facts. Whether they’re coming to our school or another school, somebody’s going to be there who has some expertise. You would think they would be fighting to come to those things or coming to our campus and saying I want my son or daughter to go to college. But it doesn’t seem like we get a lot of that.”

A counselor at a nearby high school echoes that impression. “I do announcements on scholarships,” she said. “I can put one out there for weeks and not have one person ask about it. We push this stuff down their throats, but they’re thinking they’ll just deal with it later.”

Dan Mann had the same experience during his tenure at Southern Illinois University: “Going to high school financial aid nights, even though I tried to pull students in and get them involved and tell them it was an important part of the process, there was very much an expectation that this was something that the parents needed to handle,” he said.

But even outreach professionals who feel confident that they’ve reached students during their presentations at high schools wonder how much of an effect they are having. “We never know if they’ve followed through or not. I have a feeling that a whole lot of FAFSAs get stuck in people’s backpacks,” said Hugo of the College of Santa Monica.

To Venegas and others who work with the most vulnerable students, one-on-one counseling is key to getting students over the hurdle by answering questions that may not be addressed through programs like Cash for College, where 60 or more people might be packed into a room. “I see it as an individual process,” she said. “Who’s going to raise their hand at a financial aid night and say my dad’s incarcerated or I don’t have a social security number?”

Applying to College

You’re inundated with tasks. All the schools request different information. Some want your tax returns, some don’t. You have to try to compare your financial aid offers from different schools and they’re not necessarily readily comparable. It’s a very confusing time. A lot of the low-income people are very unversed in this.

- Karen Rice, assistant director of financial aid, UC-Berkeley

Colleges and universities differ dramatically in how they communicate with students about borrowing. Some, especially higher-cost institutions, automatically offer loans to all students who qualify for financial aid. Some offer them only to students who’ve indicated an interest in loans on the FAFSA or the campus’ financial aid questionnaire. Still others, including many community colleges, offer loans only if students specifically take the extra step of contacting the financial aid office to request them.

Concerns over high default rates in the 1990s and the high student debt loads of recent years may have had the effect of deterring counselors from recommending loans or discouraging students from considering them. More recently, because of the low-interest environment, some officials have become more comfortable about encouraging students to borrow, a pattern that could change as rates increase. “With interest rates low, we feel a little bit better about encouraging loans,” said Margaret Betts, a financial aid officer at Oklahoma State University.

Regardless of their packaging, schools typically do not provide loan counseling until *after* a student elects to take out a loan. That means that often low-income and first-generation students, including those for whom loans might make sense, lack entrée to the world of loans at a critical juncture, when they are deciding whether to attend college and how to pay for it.

Even evaluating award letters can be a challenge, because the format isn’t standard and the language is hardly transparent. “They are full of acronyms and initials that aren’t explained,” said Esther Hugo, who organized a campaign through NACAC to standardize award letters. “This is the point at which students and families are making decisions.”

Getting answers from high school counseling centers or college financial aid offices isn’t always easy, especially at many public institutions, since both tend to be overwhelmed with queries before key deadlines. Students who need one-on-one counseling to discuss particular situations often have to contend with jammed phone lines or long queues.

“Especially at a public institution, there’s not enough staff,” said UC Santa Cruz’ Nee. “My priority is always to address the applications, get the money out there. There’s no

time or staff to do justice to an educational campaign, and the high schools do even less than we do.”

During College

More and more, once students are in college, loans are seen as a fact of life for low- and middle-income students. With only a few exceptions, the more costly the institution, the more this is true. Those who are most reluctant to borrow appear more likely to attend community colleges or lower-cost institutions, since those who attend higher-cost institutions often end up with debt.

What schools have in common is the mandatory entrance interview, but even in the best circumstances, its value may be limited. “Some of us wonder, no matter how good you make the entrance interview at the time, how much of an impression can you leave?” said Berkeley’s Karen Rice. “They take it just before they’re starting school, when they’re away from home for the first time, and they have to manage money for the first time, and wondering who their roommate is. How much information can one person take?”

The American Council on Education’s director of policy analysis, Jacqueline King, made a similar observation: “The problem with entrance counseling,” noted King, “is that the student is not paying close attention. It’s like the lecture on alcohol before you’ve had your first beer.”²⁸ And increasingly, with entrance counseling handled over the Internet at some schools, it is easier than ever for students not to pay close attention.

How colleges communicate with students about loans varies by institution, but trends can be observed by institution type.

Community Colleges

Community colleges appear to be less likely than other institutions to encourage students to borrow. Not all colleges offer loans, and many that do don’t advertise it. On the one hand, college officials say their tuitions are low and their students aren’t interested in borrowing. On the other hand, foregoing work can be a greater burden than paying tuition, and it is not clear to what extent more community college students would attend full-time if borrowing were a more accessible and more attractive option – or if more grant money were available. The issue is most salient in states with high tuition at the community college level.

To many community college officials, keeping debt levels to a minimum is the best way to serve their students, particularly those students who aren’t academically well-prepared for college and risk dropping out. Particularly because they are typically less well-staffed than four-year institutions, financial aid counselors may consider addressing the complexities of borrowing a luxury that they cannot afford, and a risk for many of their students. Stricter federal policies that are the legacy of loan defaults may provide an additional disincentive for officials at these institutions to promote student loans.

“We try very, very hard not to let people into loan status on the freshman and sophomore level because we know what they’re facing when they get to that fifth year and on into the professional schools,” said Larry Devane, president of Redlands Community

College, about 30 miles from Oklahoma City. According to the college's financial aid coordinator, Jenny Wilson, the school provides loans only for those students who actively request them. Wilson called the policy, which she inherited when she came to Redlands a year ago, a way of avoiding high default rates.

Wilson is concerned that some students might not realize that they qualify for loans. "If they're not informed enough, which we see a lot of, they don't know to come in and ask. They get their initial results back from their FAFSA, and they think they don't qualify for Pell Grants so they can't come to school. I fear that we're missing a window of opportunity for some students," she said.

Wilson cited the example of a student who approached her at the beginning of a recent semester. The student was on the verge of dropping out because she didn't have the \$500 to cover her textbooks. She hadn't realized that she was eligible for a loan. "That \$500 made this girl's life change," said Wilson.

At her previous institution, Oklahoma State University's Oklahoma City branch, Wilson increased the total federal financial aid disbursed at the campus from \$2 million a year to \$18 million a year, accompanying an enrollment increase of 44 percent. "I started communicating with kids, putting on more financial aid awareness programs, as well as packaging the loans up front." She is hoping to have a similar influence at Redlands.

At some community colleges, students aren't aware that they are eligible for loans. "Nobody in high school talked to me about that," said Evelyn Duran, a Salvadoran immigrant and community college student in Northern California. "When I started at College of Marin, I didn't have that orientation either. I thought about it because some friends told me they were receiving checks every month from financial aid."

The information gap even extends to students who are already familiar with student loan programs. "Last year I didn't get a loan, because I didn't know that I could," said Briana Cavanaugh, a student at a California community college. "The financial aid office told me that I couldn't get loans, that they were not available at the school. I knew what questions to ask, and I still didn't get the right answer."

In her second year of community college, Cavanaugh was able to pass that obstacle, but the school offered her only \$2625, the maximum for dependent freshmen. As a sophomore and a student parent, federal regulations would have permitted her to borrow almost three times that amount.

Laney and Redlands are not the only community colleges with high barriers to obtaining loans and other forms of aid. At Malcolm X College in Chicago, for example, the school doesn't mention federal loans on its financial aid home page, giving the impression that the school does not offer them. In an interview, financial aid advisor Vonetta Brown said that loans are available, but the school doesn't promote that option because few students want to borrow.

At Central Florida Community College, the financial aid office phone line was repeatedly busy when we attempted to contact them. A call placed to the campus operator was of little help, until the operator realized that our interviewer was not a student and offered an alternate phone number. She made it clear that her job was to prevent students from bypassing the line. "We talk to students who are trying to get past us," she said.

Public Universities

Public four-year institutions appear to encourage borrowing more than community colleges. The higher the tuition, the more likely the institution is to automatically include loans in students' financial aid packages. Up-front packaging is generally the rule at research universities, but the extent varies. UC Berkeley automatically offers subsidized loans, unsubsidized loans, and parent loans as part of aid packages. UCSC packages only subsidized loans, but may soon begin packaging unsubsidized and parent loans as well.

In contrast, at Southeastern Oklahoma State University, a regional campus, financial aid director Sherry Foster said she is very cautious about packaging loans. "We're a very low-income area," said Foster. "I'm not an advocate of students taking out loans, but I see a lot of students coming through here who don't have other options. If they check on the FAFSA that they're interested in a student loan, then I will package it. Otherwise I'll give them work-study if there's unmet need."

Hamilton of the University of Oklahoma says that, at least on his campus, the thinking about debt loads has changed. "For a while, we and the media and others were captivated by 'What is your graduating senior loan debt amount?' That's important, but perhaps as important is making sure you get more people to the graduating senior place," he said.

Private Universities

Of the various types of institutions, private colleges and universities are generally the most aggressive about promoting loans. Whereas officials at public institutions may be sheepish about asking students to borrow, independent university officials emphasize the low interest rates. "Because our sticker cost is a lot higher, we spend a lot more time talking with students and families about the cost of education," said J. Michael Thompson, Vice Provost and Dean of Admission and Financial Aid at the University of Southern California.

"We spend a lot of money and time talking to anybody who has expressed an interest in Pace. We spend a lot of time going to high schools and educating parents and counselors," said Florence Attino, of Pace University's financial aid office. "We're going into high schools and telling students they do have choices. A private school is not as far a reach as people would think. You can't always look at the price tag. Is the school a good fit? You're investing in your child's future. To most people, your house is your biggest investment. I beg to differ with that. Your child is your biggest investment. If nothing else, they are entitled to low-interest loans."

Those attitudes align with students' behavior – 67 percent of students at private not-for-profit four-year institutions apply for loans and grants, compared to 58 percent at public four-year colleges and just 33 percent at community colleges, according to *Missed Opportunities: Students Who Do Not Apply for Financial Aid*, a report by the American Council on Education.

Meeting Full Need?

When four-year universities promise to “meet full need,” students often hear “grants and scholarships only.” But typically, a college’s guarantee of meeting need is contingent on the student’s coming up with \$8,000 or \$9,000 through loans or work.

A group of students applying to college chatted about this very question a couple of years ago on the website College Confidential. Inquiring about the language “Committed to Meet Full Demonstrated Financial Need,” one student wrote, “Does this mean anything? ... Does this mean if you are short on cash, you don’t have to worry about pounding yourself into an insurmountable mountain of debt?”

Here’s one student’s response:

“Meeting 100% of demonstrated financial need means basically that they will make it possible for you to attend. It could be through a 100% grant – there are at least a couple schools that actually do this. It could be through making huge loans to the student and the family – thanks for putting me in debt for the rest of my life....! Or it could be a mix of the two extremes – with some work study thrown in. This is the usual formula. BUT ... the formula varies a LOT.... Some colleges may have a history of sticking it to students with FinAid. It’s up to you to find out. Obviously, it’s better to deal with a college you have faith and trust in.”

ADDRESSING THE DEBT DILEMMA

The word “student loan” had a bad connotation, but then when you explained how the program worked, some people thought it was a reasonable option for them.

- Dan Mann, former aid director, Southern Illinois University at Carbondale

Strategies for addressing loan aversion range from providing educational materials about loans and encouraging students to consider borrowing, to replacing loans with grants for the neediest students. Here is a brief look at what some schools have tried.

Communication

To some extent, aid professionals have found that taking the time to explain loans to students or parents eases some students’ anxiety about borrowing. “We tried to reassure them that they’re not the only ones out borrowing money, that this is a common phenomenon, we tried to explain that these are federally guaranteed loans, and you’re getting them at a reduced rate. We helped to explain the repayment options,” said Mann.

“As they learned more about the terms and conditions of the loans, there were some students who felt more comfortable and realizing they wouldn’t have to try to repay them while they were still in school. That was sometimes what they needed to hear. Part of it was a lack of education,” he said.

At UC Santa Cruz, Esperanza Nee has also looked for messages that work best. “I always make the comparison with a car,” she said, when talking with some low-income

and minority families. “These kids are the same kids who will do anything to get a car. And yet, the minute you drive a car off the lot, it depreciates. I tell them that unlike that experience, an education is something that once you get it nobody can take it away from you, so it’s a great investment. That’s very persuasive with parents. You have to tie it to their experience.”

She added that stories of success help to personalize the information, especially when it comes from people who look like them and sound like them.

“How can we better explain this process, what it means and why it might be good to take out the loan when we all wish they wouldn’t have to take out the loan?” wonders Karen Rice at Berkeley. “I think financial aid officers are conflicted, but for the most part, we believe that a college education is worth it. It’s better to go to college and graduate in debt than not to go to college. Even though we wish that these students weren’t having to take out these loans and graduate in debt, lacking other choices, we want our students to enroll and do well, and we don’t want them working 25 hours a week.”

Many schools are turning to technological innovations, such as online calculators, to track students’ debt or estimate their payments. Some have extensive counseling resources available on the Internet.

Clearly, such resources have a long way to go. Some students complain that they often don’t receive the information they most need. “Every once in a while, you get an update from the federal government,” said Burns. “There isn’t information about what your payment will be if you borrow x amount of dollars. If I log on to the Oregon State University website to find out how much I borrowed, I would only find out what I borrowed this year.”

Ohio State University is one institution that appears to have put the most thought into explaining loans to students. On its student loan website, OSU provides a link to a page about debt management.

The site advises students to keep payments below 5 percent of expected salary. Its website contains a budget planning worksheet, examples of debt levels, and features a chart with four colored zones. Similar to the federal terrorism alert levels, green means that payments are safely below 5 percent, while red means they are in the dangerous zone over 10 percent. Here are some of the site’s words of caution:

It is wise to borrow only what you need to meet your expenses. Because obtaining student loans is a fairly simple and easy process and repayments seem years away, it is typical for students to borrow the maximum amounts per year without considering the amount of money they will have to repay when they leave school. Don’t end up in the Red Zone.

You would also be wise to consider what your starting salary will be when you leave school. This is a very important factor when determining the maximum amount of loan debt you will be able to repay. Some typical starting salaries of our graduates have been...

The next paragraph advises students to consider what their salary will be when they leave school, and provides a list of typical starting salaries ranging from \$22,000 at the College of Social Work to \$47,500 at the College of Pharmacy.

OSU officials clearly have put much consideration into the website with the very best of intentions. And yet, the website illustrates just how difficult it is to get students the information they most need. Using future salary levels as benchmarks can be helpful for students who have defined their career path before beginning college and who are confident that they can get the job they want. But the majority of students, who use their experience in college to help formulate a career plan, would be hard-pressed to predict their future earnings.

Furthermore, a student who relies solely on the Internet could end up terribly confused. While OSU recommends payments less than 5 percent of salary, the site planningyourfuture.org, sponsored by various student loan guaranty agencies, suggests 8 to 15 percent of students' first year's gross income.

Retention Programs

Traditionally, college retention programs have focused more on academic obstacles than financial obstacles. Though a large proportion of students who face academic difficulty are lower income students, retention programs often leave the financial issues to the financial aid officials, whom students may be reluctant to seek out. "We really do not have an expertise in this area," acknowledged Martha McMillian, who runs a student retention program at Oklahoma State University.

More and more, though, colleges are starting to see a link between financial aid and academic progress and to recognize the importance of making financial aid counseling services more available. The University of Oklahoma, for example, recently ended a policy that would prevent students from re-enrolling if they owed the university as little as \$50. Now they see these small debts as a sign that the students may need assistance. The school established a \$50,000 loan fund to help students over short-term money crunches. Students who run into such problems, and those who do not re-enroll, are contacted by the school with an offer to help out with financial difficulties – whether through counseling or financial support.

These were the first steps toward establishing a Financial Education and Counseling Center at Oklahoma for continuing students, as part of the school's campaign to increase retention and graduation rates. "We will contact students who have gotten slightly behind on their bursar bills and see if there's a financial remedy that we can provide to them and see if they're having some issues with budgeting or balancing their checkbook," said Matt Hamilton.

At UNC-Chapel Hill, a student retention study found that students who worked extra hours to avoid loans sometimes jeopardized their academic success. "One of our huge findings about students who work too much, was that once they get into academic difficulty, their chances of graduating drop precipitously," said Jerry Lucido, Vice Provost for Admissions and Enrollment Management.

No-Loan Programs

The most high-profile of the programs to address student debt are those that replace loans with grants. While this approach may not provide solutions for most students or most institutions, it nevertheless illuminates the dimensions of the student debt dilemma. The programs began at Princeton University, which eliminated loans from financial aid packages, first for lower income students, and then for all students.

The first program began at Princeton University in 1998. In its initial five-year period, low-income students (whose families earned less than the median family income) in the freshman class increased by 47 percent from 88 to 129; the number of freshmen on scholarships increased by 35 percent from 423 to 584 (out of about 1140 in the class); and the yield rate for students on financial aid increased from 60 to 71 percent.²⁹ African American students jumped to 9.5 percent of the freshman class, the highest percentage in 22 years.

As other high-cost private universities with large endowments followed Princeton's lead of eliminating loans in order to attract students away from less costly public universities, two public flagships responded in kind with their own programs to allow low-income students to go to school without borrowing. UNC-Chapel Hill led the pack, followed by the University of Virginia. UNC's Carolina Covenant targeted students at 150 percent of the federal poverty level, later increasing to 200 percent. Though the program is too new to have shown results, officials believe they were successful in recruiting some promising students who otherwise would have attended community colleges. "Most of them would have gotten in, but they didn't think they could afford to go to a university," said Shirley Ort, Director of Scholarships and Financial Aid.

University of Virginia officials also hope their program, Access UVA, will influence student demographics, and increase the school's enrollment of Pell Grant recipients. "We were watching the number of low-income students who applied decline, we watched the number of low-income students who came here decline," said Yvonne Hubbard, noting that UVA was not alone among public flagships in losing Pell recipients.

"We didn't have research, but we had anecdotal feedback from our low-income students and our counselors that this was a problem. We did a survey on students who didn't come to the university and found that financial aid was more likely to be the reason for students who were lower middle-income and low income."

To have a serious impact, Ort says, naturally requires ensuring that students see college as affordable at a younger age. "In year one, the students who we were successful in recruiting already had taken a college prep avenue or they wouldn't have gotten in," said Ort. "The real impact is going to be over time as we're able to work with affinity partners – local churches, chambers of commerce, youth outreach programs, GEAR UP programs, TRIO programs – and make sure that middle school kids understand the benefit."

The high-profile loan elimination programs have been driven by a general concern about rising debt loads among students and a specific concern that the demands of debt may be deterring low-income students from attending colleges, especially higher-cost four-year institutions. But few schools can come anywhere close to matching them, especially schools already enrolling a large number of low-income students. When

Carolina's program began, officials estimated its cost at \$1.4 million a year. At the time, the University of California system officials estimated that for UC's eight undergraduate campuses to copy the program, it would cost more than \$100 million, because UC enrolled 20 times as many low-income students as Chapel Hill and their financial need was greater.

Barring a dramatic rise in state grants and federal Pell grants or extremely generous donations, most colleges simply cannot afford to follow in the footsteps of elite institutions like Harvard, Princeton, UNC-Chapel Hill, and the University of Virginia. While all colleges need to consider ways to remain affordable and ease students' debt burdens, replacing loans in aid packages is an option for only a tiny minority. Nevertheless, these programs may yield lessons about the debt dilemma that also lend themselves to other policies and solutions.

UNC's Ort says she regularly gets calls from other aid professionals wondering what they can do to alleviate students' debt burden or eliminate the obstacle of debt. Most don't have the resources to go as far as UNC or UVA, but she encourages them to take whatever steps they can. "One of the things that's brought me the greatest joy is to hear my colleagues say, 'thank you for helping me reinvigorate this discussion about need-based aid,'" she said. "There's nothing magic about what we're doing. There's so many ways to be creative based on what you most need to do to serve your state and your institution."

WHAT NEXT?

The debt dilemma, as we have seen, may interfere with the effectiveness of loan programs in ensuring equitable access to a college education. Additional research into the subject would shed valuable light on the role of debt aversion as a deterrent to college access as well as on ways of addressing that role. To facilitate that research, existing survey instruments need to incorporate more questions about students' perceptions and choices about paying for college. Colleges certainly can enhance their financial aid counseling services and take other steps to ease the burdens of debt. Through policy improvements, the federal government can also play an important role in realigning its programs to more efficiently and effectively serve students. It appears there are four broad strategies that could improve the way the financial aid system serves the needs of loan-averse students:

- Making more grant money available for low-income and/or first-generation students so that reluctance to borrow doesn't pose an additional obstacle to students already facing major hurdles in attending college;
- Redesigning loan programs to make them more attractive and more efficient, including simpler income-based repayment strategies that would help minimize the negative life and career effects that student debt can have on borrowers;
- Better integrating financial issues into high school counseling, college outreach programs, and college retention programs, so that at least some students can feel more comfortable with student loans as an option for financing their education; and

- Providing more options for students who prefer to work and attend school part-time (including more work-study jobs and higher wages) to enable part-time students to better integrate their work and academic lives and enhance the retention and graduation prospects of part-time students.

It is hoped that this discussion will be a starting point for further analysis and specific policy proposals.

Endnotes

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⁷ Interviews were conducted primarily by telephone, with the exception of in-person interviews in Northern California, New York City, and Washington, DC.

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¹⁰ Susan P. Choy and Larry Bobbitt, *Low-Income Students: Who They Are and How They Pay for Their Education*, National Center for Education Statistics, U.S. Department of Education, NCES 2001-169, March 2000, vi.

¹¹ Baum and O'Malley, *College on Credit*, 22. The survey also found that Black, Hispanic, and Asian-American debtors were more likely than white students to feel burdened by debt, even when controlling for factors such as income.

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¹³ Baum and O'Malley, *College on Credit*, 24.

¹⁴ American Council on Education press release, 11 October 2004.

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¹⁸ Jacqueline E. King, *Crucial Choices: Student Behavior and Persistence in the United States*, International Higher Education, Boston College, Fall 2002.

¹⁹ "College Costs Too High Even for Some Families Who Save," *All Things Considered*, National Public Radio, 23 May 2005.

²⁰ Christopher Avery and Caroline M. Hoxby, "Do and Should Financial Aid Packages Affect Students' College Choices," in Caroline M. Hoxby, ed., *College Choice: The Economics of Where to Go, When to Go, and How to Pay for It*, (Chicago: University of Chicago Press, 2004).

²¹ While 12.59 percent of students whose parents did not complete high school worked full-time and did not borrow, only 5.74 percent of those whose parents had graduate degrees fell into this category in 1999-2000. National Postsecondary Student Aid Study 1999-2000, National Center for Education Statistics, U.S. Department of Education.

²² R. Ekstrom, "Attitudes toward borrowing and participation in post-secondary education." Paper presented at the annual meeting of the Association for the Study of Higher Education, 1991, as cited by Laura W. Perna in "Impact of Student Aid Program Design, Operations, and Marketing on the Formation of Family College-Going Plans and Resulting College-Going Behaviors of Potential Students," The Education Resources Institute, 2004.

²³ Laura Perna, "Impact of Student Aid Program Design."

²⁴ *Caught in the Financial Aid Information Divide*, Survey conducted for The Sallie Mae Fund by the Tomás Rivera Policy Institute at the University of Southern California.

²⁵ Patricia M. McDonough, "The Price of Advice: Counselors' College and Financial Aid Knowledge," 2004.

²⁶ Patricia Gandara et. al., *Final Report of High School Puente 1994-1998*.

²⁷ William G. Tierney and Kristan Venegas, "Addressing financial aid in college preparation programs," unpublished paper.

²⁸ As quoted in Kathy Witkowsky, "Debating Student Debt: Are college students living beyond their means?" *National Crosstalk*, Fall 2002.

²⁹ 2003-04 Undergraduate Financial Aid Report to the Priorities Committee, Faculty and Student Committee on Undergraduate Admission and Financial Aid, 26 November 2002.